



# **Topic 2: Regulatory Framework Under PBR**

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# **Discussion Points**

- **Status & Prospects of Regulation Under PBR**
  - **Overview**
  - **US Experience**
  - **Hawaii Experience**
- **Comparing Hawaii to Other Jurisdictions**



# **Status & Prospects of Regulation Under PBR**

# Overview

- **Regulation**
  - Intellectual anchor: social welfare maximization
  - Customer-focus
- **PBR**
  - A form of so-called “incentive regulation”
  - Portion of cost savings flows back to utility
  - Rewards & penalties

# **Regulation & Utility Risk**

- **Clear & consistent regulatory policy**
- **Financing: key to long-term utility viability**
  - **Exceeding global performance standards**
  - **Meeting investment requirements under RPS**
- **Wall Street view of utilities**
  - **Low risks**
  - **Steady cash flow**

# US Experience

- **Long history of incentive regulation**
- **Various types**
  - **Rate case moratoria**
  - **Price caps**
  - **Monitoring of performance indicators**
- **PBR & power sector restructuring**

# **Prudence & Perspective**

- **PBR regime design**
  - **Coordinated efforts among stakeholders**
  - **Complex & contentious analysis of costs**
- **Avoidance of unintended consequences**
  - **Price caps may adversely affect service quality**
  - **Unwieldy process may delay beneficial effects**

# Hawaii Experience

- **The Commission: properly positioned to explore PBR prospects**
- **Stated short-term goal of the Commission**
  - **Modernize the regulatory process in order to increase the efficiency of the Commission & regulated utilities**

# **Current Regulatory Activities (1)**

- **Cost-of-service regulation**
- **Approval of**
  - **Purchases**
  - **Integrated resource plans**
  - **Interconnection standards**
  - **Power purchase agreements**
  - **Connection & attachment agreements**
  - **Capital improvement projects exceeding \$2.5M**

# **Current Regulatory Activities (2)**

- **Complaint investigation & resolution**
- **Required submission of financial reports**
- **Required payments of utility revenue fees**
- **Monitoring of service quality & publication of service reliability indices**
- **Approval of DSM shareholder incentives**
- **Investigation of emerging regulatory issues**

# **Power Sector Restructuring**

- **PBR investigation independent of any plans for power sector restructuring**
- **Alleged barriers to restructuring**
  - **Lack of interconnection among islands**
  - **Small market size**
- **Assumption in rate design formulation: “No restructuring”**



# Comparing Hawaii to Other Jurisdictions

# **Goal of Comparisons**

- **Review of alternative PBR regimes**
- **Potential, through PBR, for encouraging investments in renewables**
- **Understand the critical factors underlying successful PBR regimes elsewhere**
- **Use this understanding as inputs to the formulation of electric utility rate designs**



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